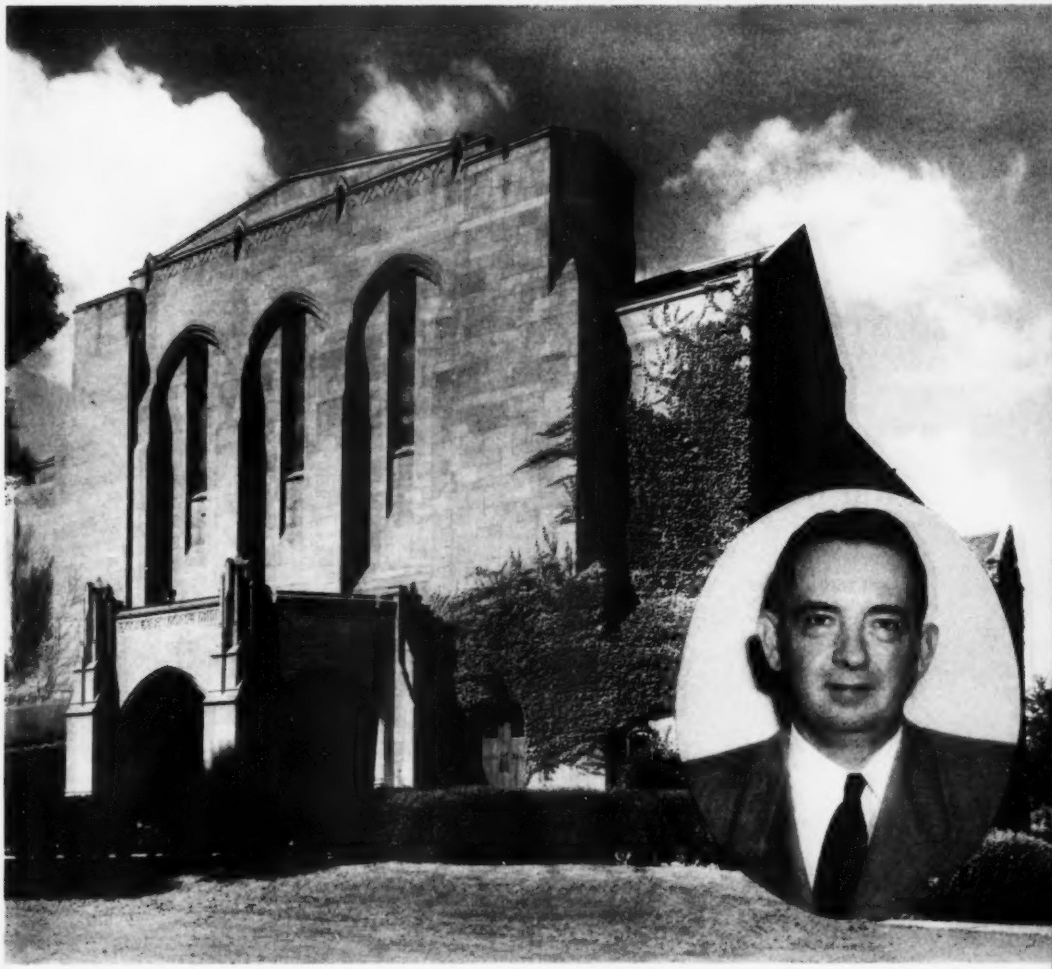
The Mortgage Banker

MARCH
1950



With MBA's 1950 NYU education course successfully concluded (see page 16), next activity in this Association division is the Mortgage Banking Seminar at Thorne Hall, Northwestern University, June 19-23. W. L. Leighly, vice president, Dovenmuehle, Inc., Chicago, as vice chairman of the education committee, is directing the Seminar. The complete program will be sent members shortly.

In this Issue CRISIS COMING IN LIBERALIZED MORTGAGE CREDIT? ★ CONNECTICUT ALREADY HAS DIRECT GOVERNMENT LENDING ★ MORE ON SERVICING

President's Page

TO OUR MEMBERS

Since my last report to you there has been a number of rather important developments in our industry. On January 27th, members from our group attended an industry-wide meeting in Washington called by the U. S. Chamber of Commerce. We met with the Building Finance Committee of the Chamber and representatives of other trade organizations for a general discussion of MBA's proposed legislative program. After a comprehensive discussion, it was accepted and adopted by the group without a dissenting vote. This is indeed a tribute to Sam Neel and Bill Clarke for having done such a thorough selling job, a feeling I know all members will share.

R. O. Deming, Jr.

On January 30th, in New York, an Executive Committee meeting was held which included the committee chairmen and vice chairmen of the Washington, FHA, GI, and Federal Legislative Committees. The entire day was given over to hearing the report of our special legislative committee and current developments in Washington, together with our determination of future MBA policy. Full approval was voted of the action taken in behalf of our program.

Following this, the MBA-NYU Senior Executives course was launched under auspicious circumstances.

For the first time, NYU had more applicants than it could accept; and, as a result, was forced to reject a few. This speaks well for the future of this important MBA activity. Unlimited credit for its success goes to Tom Lovejoy, MBA Chairman, and to Dean G. Rowland Collins of NYU who planned and executed the program.

Everywhere I have been recently—and this includes Washington—I found that MBA's leadership in our field is recognized and accepted, and because of this our industry now gets a more attentive hearing in high places. But we must not forget that leadership involves added responsibility. Your national officers are fully cognizant of this and are doing their utmost to meet these increased responsibilities.

These increased activities on a national scale are stimulating interest in membership in MBA. As a result, we have 140 applications at this time. This major increase in membership has been accomplished without any relaxation of our rigid and selective requirements.

I have been particularly impressed by the almost universal thinking of those with whom I have come in contact since the first of the year that we will have a continued period of high real estate activity and an increasing volume of mortgage loans for the remainder of 1950. At the same time, my impression has been that interest rates have softened, as shown by bond prices, but that there should be practically unlimited funds for mortgages.

FNMA's position since January 1 has materially altered. It is my understanding that the agency has sold, or has under contract, the sale of all 608 mortgages in its portfolio, and it is a substantial volume. FNMA recently sold to two banks in New Jersey about \$7½ million of New Jersey GI loans, on which all servicing contracts outstanding at time of purchase were canceled. The banks intend to service direct. In addition, FNMA reports many inquiries for purchase and has sold some FHA and GI combination loans to various banks. Inasmuch as all FNMA purchasing credit is on a revolving fund basis, this would indicate that it may continue to have funds for a considerable time.

President Truman, in his Budget Message, asked for \$500 million additional authorization beginning July 1 for one year and an additional \$250 million for the fiscal year beginning July 1, 1951. These have not been authorized by Congress; and in Washington there is some doubt, because of the Treasury's deficit, whether these appropriations will be passed. Particularly was this questioned if our proposed private FNMA should be organized. Our proposal for a private FNMA has been favorably received, so we were told by various senators and congressmen, and therefore stands a good chance for passage. An MBA committee is exploring the possibility of private industry being able to sell debentures of this private FNMA if created and at what rate they might be marketed.

I am advised that there is a strong probability that the GI loan guaranty will be revamped to eliminate 505a loans and to increase the government guaranty up to 60 per cent of a loan of \$12,500 or a total government guaranty of \$7,500 maximum. I am making no prediction here but merely passing along information gained from reputable sources and on which I place considerable credence.

I am still inviting letters from our membership, both criticism and suggestions for improving MBA activities. I will appreciate having the benefit of your thinking at any time.

R. O. Deming Jr.

President
Mortgage Bankers Association of America

MBA CALENDAR

February 23-24 CHICAGO, Mid-Winter Mortgage Conference, Drake Hotel.

March 30-31, MIAMI, Southeastern Clinic, McAllister Hotel.

April 10-11 NEW YORK, Eastern Mortgage Conference, Commodore Hotel.

April 17-18, DENVER, Mountain States Clinic, Cosmopolitan Hotel.

April 19-20, DES MOINES, Middle Western Clinic, Hotel Savery.

June 19-23 CHICAGO, Third annual Mortgage Banking Seminar held in cooperation with Northwestern University.

September 27-29 DETROIT, 37th annual Convention and Exhibit of Building, Industry and Services, Statler and Book-Cadillac Hotels.

MBA PUBLICATIONS
(Current and Coming)

MBA DIRECTORY, issued every other year. 1950 edition expected around March 1. Each member firm receives one; additional copies $1 each.

MORTGAGE LOAN SERVICING PRACTICES by William I. De Huszar. First book on mortgage loan servicing published. Additional copies available to members at $2 each; to non-members $3.50 each.

TEXTBOOK ON MORTGAGE BANKING, Robert H. Pease, Editor. To be published by McGraw-Hill Book Company, Inc., New York.

MBA POCKET MANUAL—Annual compilation of MBA committees for the current year, officers and other groups within the Association in addition to constitution, by-laws and other data.

DESIGN FOR DOING, DEVELOPING AND DELIVERING MORE MORTGAGE BUSINESS. Membership booklet being used in this year's solicitation. Members should request a supply for use in making membership presentations.

The Mortgage Banker

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Contents

We're Nearing a Crisis in Liberalized Mortgage Credit

By ROWLAND R. McELVARE

With 14,000,000 "middle income" families eligible for loans under the new legislation, is there any reason to believe they will seek financing from private sources, asks Mr. McElvare. He is president of ABA's mortgage and savings division and senior vice president of The Bank for Savings, New York, and reflects the concern with which savings institutions view the socialistic character of what is being proposed in Washington today regarding housing.

THE unfortunate effect of our present prevailing low interest rate policies is keenly felt by both borrower and lender. There is serious question as to whether the people of the country, as well as the individual mortgage borrower, are not paying for easy credit in other ways. The accumulation of savings and the practice of thrift are being penalized. If continuous lower interest rate policies on home financing are continued, the outlook for a reasonable return to the savings depositor and purchaser of life insurance is not bright, and must inevitably result in discouraging this vital force in our American way of life.

R. R. McElvare

Housing and mortgage legislation now before Congress adds materially to the growing concern for the ability of banks to place mortgage loans in sufficient volume and under conditions which will encourage the practice of thrift among their depositors. Mortgage loans are a primary source of investment for savings deposits, and a reasonable return on that investment is due the savings depositor as a reward for his practice of thrift and economy. The new bill before Congress, providing easy credit for home building purposes on a large scale, attractive though it may sound at first reading, can have serious repercussions upon banks and depositors through a further lowering of interest rates for mortgage loans.

As all know, the demand for mortgage loans has been very great in recent years. At the end of the war, loans outstanding from all sources totaled approximately $26 billion. During the following years, they have expanded approximately $34 billion more. The demand should continue high.

Competition for the mortgage business has been an important factor in stimulating this demand. Life insurance companies and savings and loan associations are actively engaged in seeking 1950 business. By the end of 1948, the total loans outstanding attributable to mortgage brokers had increased to $12 billion. This represents the largest proportionate increase of any mortgage group. Although no official figures are yet available, it is estimated that the total mortgage debt in the United States is now approximately $60 billion.

A great amount of savings funds is available for mortgage placement, and 1950 should see a continuation of this trend. During the last ten years, savings and time deposits in banks increased from $25.6 billion to $55.3 billion—the largest growth ever recorded in a comparable period of time. Due to wartime conditions and the absence of new home construc-

A broadening of methods for FHA and VA appraisals was one of the points emphasized by W. A. Clarke in his testimony for MBA before the Senate Banking Sub-Committee holding hearings of the "middle income" legislation. He told the members that the operations of FNMA ought to be limited to only "pressing needs" and deplored the role of the agency as a mortgage bank underwritten by the RFC.

He spoke at some length on the cooperative feature and showed that the scheme, even now after 50 years, accounted for only a minor portion of the housing in Sweden, the country where it has been most widely used. Also testifying with Mr. Clarke was Harry Held of the Bowery Savings Bank, New York, representing the National Association of Mutual Savings Banks. He said that loans made through the new National Mortgage Association for Housing Cooperatives would in effect be direct loans by the government. Contrary to the experts' opinion, the Senate Banking Committee did not clear the bill immediately. Instead, as this is written, the group voted to hold it up until the latter part of February pending a study of its "possible impact on the national economy." Members seemed to think that the federal reserve's opinion as to its inflationary effects should be carefully weighed; and, further, that no hasty action should be taken. Apparently the private enterprise spokesmen made more of an impression than they realized but this action does not indicate the final outcome.

W. A. Clarke

IT'S A COLLECTIVIST HOUSING PROGRAM

said

RODNEY M. LOCKWOOD

President of NAHB, in his Senate testimony.

American "middle income" families who would rather have their own homes than live in government cooperatives will be discriminated against if the Administration's collectivist housing plan is carried out.

R. M. Lockwood

The Maybank bill, which would set up the cooperatives by special government aids, discriminates against those who may not want to live in group housing by forcing them to seek private or FHA or VA financing for their individual homes at higher cost.

The artificially lower interest rate and longer amortization proposed for cooperatives would compete with and weaken the FHA and veterans housing programs.

Our association is for legitimate encouragement of cooperatives when they operate as free enterprise. But such groups as a class should not be provided, directly or indirectly, with government subsidies or special financing or tax devices available only to them and not freely available to all other citizens or forms of business enterprise.

This bill would have our government put a premium on the group housing idea by the greater inducements it would offer. It would set up a privileged group of families, estimated by the sponsors as 250,000 out of 8 million families of similar income, who would receive special benefits denied to the remaining 7,-750,000 families.

The families who would be eligible, according to the Administrator of the Housing and Home Finance Agency, have incomes ranging from a low of $2,451 in smaller communities to a high of $4,841 in the larger cities.

This is the income group that is buying most of today's houses. It is discriminatory when a few of their group have such a political handout.

This kind of thing may appear to some observers to be only a political gesture made toward the middle income group in an election year, now that the lower third income group has been subsidized with public housing.

If this is a political gesture, it is a very dangerous one because it is a substantial step toward nationalization of housing.

tion, savings banks were unable to find an adequate outlet for their growing deposits in mortgage loans. In spite of increased mortgage activity in recent years, mutual savings banks now have only 32 per cent of their $19 billion of savings deposits invested in mortgages. This compares with similar holdings of mortgage loans of 46 per cent of deposits before the war.

Commercial banks are also a great potential reservoir of funds for future mortgage loan placement. Of the $36 billion in savings and time deposits held, only 30 per cent are invested in mortgages.

Bankers Question FNMA

If savings institutions approached an investment of 50 per cent of their savings deposits in mortgage loans, and the mortgage terms and credit of the borrower were satisfactory, there would be about $10 billion in potential credit for mortgage purposes available now—enough to absorb the probable increase in all mortgage loans required for 1950.

This amount does not include new funds which would be available for mortgage placement each year, derived from the annual pay-off of loans already held. A recent check by ABA indicates that at the present time the annual mortgage pay-off in mutual savings banks is between 8 and 10 per cent. Commercial banks, often requiring a more rapid amortization, have an annual pay-off ranging from 10 per cent to 12 per cent. Replacement of these funds in mortgage loans would add more than $1 billion more to the possible reservoir of funds for mortgage investment.

One of the big things in the mortgage field now is the operation of a secondary mortgage market through the Federal National Mortgage Association. Total mortgages now held by it have grown to $1.4 billion.

It has been influential in the continued expansion of VA loans at 4 per cent interest, for FNMA has of course provided a ready market for them. It has assisted very materially during an emergency period in making funds available for home building purposes. But bankers do not look favorably on the growing tendency to rely almost exclusively on commitments from FNMA before proceeding with loans. This virtually amounts to direct government lending, with a middleman's profit for handling them.

FNMA purchases of loans has assured protection for the lender against market value loss. It is but a short step further to direct federal loans. Mortgage lenders must be prepared for this last step in spite of its very objectionable features, if such complete dependence is placed on FNMA for mortgage activity.

The objective for all mortgage lenders would be to seek mortgages from private enterprise sources. The market for FHA loans has been greatly widened by the passage of the new legislation in New York and Massachusetts. Although some states restrict access, this broadening of the secondary mortgage market should prove increasingly helpful during the years to come.

Builders feel that bankers should organize and operate the secondary market, and plans are in progress for the establishment of a central mortgage bank to offset reliance on government and in the hope of strengthening a secondary market through private enterprise.

Granting mortgage loans under prosperous conditions frequently alters the care with which loans have been made in recent years. The lack of mortgage failures has resulted in too much confidence in amortization as a means of protecting the loan and overlooking the factors of credit.

Refinancing of loans has often been done for a larger amount than the original mortgage, thus offsetting the strengthening effect of amortization. High percentage loans are frequently granted today and for long periods of time, while a few years ago the high percentage loans were second mortgages and for shorter duration. Good judgment has frequently been replaced by too great a dependence on government guaranty and insurance.

Direct Lending Danger

We continue to operate in a very high real estate market. Only a small decline has occurred in the cycle of real estate values, and the cost of new construction remains very near its postwar high. While we may not see the previous low again, there is no assurance that present levels will endure.

Past history has shown that economic cycles bring with them periods of mortgage fatality, and require reserves to be set up during good times to meet these emergencies. Recent studies show that the cost to cover expenses of acquiring and servicing mortgage loans calls for at least one-half of one per cent of the principal of a bank's total portfolio for a given year, and on conventional loans an additional one-half of one per cent to provide a proper reserve for future losses. A bank which received $4\frac{1}{4}$ per cent gross return from conventional mortgages would thus show a net return of about $3\frac{1}{4}$ per cent compared with government long term bond yields. This suggests the possible future need for mortgage interest rates to remain in keeping with the risk and expenses involved if they are to be a practical medium of bank investment.

The possibility of direct loans by the government or a government agency has been an important background factor in mortgage activity during the postwar years. Bankers have consistently opposed any tendency in this direction, believing it to be inconsistent with the public interest. Private financing institutions are better able to meet the needs of the general public whether it be for a loan to finance a home, a farm, or a business. When government undertakes to enter directly into the lending field, it means setting up a large bureaucracy, entanglement of borrowers in red tape, and—worst of all—the ever present danger of political considerations entering into the granting of loans. Direct lending except in times of war or extreme emergency is not a proper function of government. This practice is contrary to the American enterprise system and would be a further step towards complete socialization of credit.

Two years ago, "do-gooders" were worrying about the low-income group. They gave lip service to the private enterprise system but pushed for public housing at government expense only because, as they claim, private builders could not provide housing at low cost. Having won the first step in the low-income group, they are now pushing for the middle-income group. According to their claims, the government is taking care of the low-income group and builders are constructing for the rich. But there is a gap between these groups which is being ignored.

The bill now before Congress to provide for this group proposes a vast new scheme for cooperative housing. A new government corporation would make direct loans to nonprofit groups at an interest rate tied to the rate prevailing on government securities, with a small additional charge for administrative expenses and possible losses. That rate at present, as reported in Congress, would be about

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THE BILL IS A BLOW TO FHA AND THE VA

said

JOHN C. THOMPSON

past MBA president, in his Senate testimony for the NAREB.

The "middle income" proposal would pull a rug from under GI guaranteed loans and FHA insurance. Both of these programs are based on interest rates of 4 and $4\frac{1}{2}$ per cent with debt retirement periods of 20 to 25 years. The Maybank plan would have the government step in with interest rates of about 3 per cent and amortization periods of 50 to 60 years.

J. C. Thompson

This amendment, with its proposed National Mortgage Association for Housing Cooperative, is being held out as a political promise of bountiful housing supply for "middle income" families, just as the public housing bill of last summer was publicized as the answer to housing for "low income" families.

Families in greatest need of housing assistance will get little or no benefit from last summer's housing law; and the current proposal would, at most, even if the plan is made to work, account for housing for 1/30th of the 8,000,000 American families in what is defined as the "middle income group."

This means that enactment of the provision into law would have at least one motive: It would be a political sop thrown in the direction of the voters.

Direct lending by government in any form will overshadow and ultimately destroy the companies and associations that have supplied the money to make us today the best-housed nation in the world. Direct lending in any form is unwise for these reasons: It further strains the national budget. It is wrong in principle in the competitive economy. It will eventually affect the little man who, through systematic saving and through private institutions, accumulates enough to buy a home and take care of his family in sickness or old age. The \$300 million provided in this bill will be only the beginning.

Furthermore, it is the millions of taxpayers who must pay the ultimate cost. Direct lending may add to our current deficit financing. There is plenty of necessary legislation before Congress that will strain the finances of the federal government without adopting unnecessary obligations. The builders who, on the face of it, should benefit from this legislation, oppose it because they, too, are afraid of its implications.

DIRECT LENDING HAS ARRIVED *in Connecticut*

By DONALD E. NETTLETON

THERE exists in Connecticut, as in many other parts of the country, a considerable unfilled demand for shelter by the $40 to $65 a week income family. The tendency to cast the blame for this condition on private building and capital is hardly justified as our building industry has, since the war, produced a tremendous volume of housing, much of it for moderate income families, and private capital has been more abundant within the State and at lower rates than at any time in history.

Given a little longer, there is no doubt but that these so-called "moderate income" families would be taken care of through hitherto normal processes, but the fact does remain that there is an apparent immediate lack of so-called adequate housing to satisfy this group, especially the family group with children; and government, egged on by pressure groups and popular clamor, demands immediate results.

Our national government has already taken over the function of subsidizing the bottom of the economic ladder through programs of slum clearance, etc.; and, as we all know, now has various bills pending in Congress for direct aid to higher income groups. The State of Connecticut has stolen a march by recently enacting legislation greatly expanding its own housing program.

1½% Money

One phase of this recent legislation is the creation of a home ownership program whereby moderate income families, both veterans and non-veterans, are enabled to buy or build homes of their own, financed by mortgage loans from the State at 1½ per cent interest per year, with $30,000,000 provided for this purpose. The buyer may choose his own home from among the houses being built by builders or buy his own lot and employ a builder.

Usually eligible buyers are families whose incomes do not qualify them for FHA loans at current rates of interest (4 per cent to 4½ per cent). To get state loans they must have enough income to meet the monthly payments on FHA loans made at the reduced 1½ per cent rate. In addition to the FHA loans, veterans of World War II can borrow additional state money on GI loans at 1½ per cent. The typical non-veteran family will need between $1000 and $1400 as a down payment and for settlement and closing charges. Veterans will usually need cash only for settlement and closing costs, generally less than $200.

To qualify for a state loan, applicant must be a resident citizen of Connecticut and meet the following requirements to be certified as eligible to borrow low-rate State funds:

» Applicant must be head of a family.

» His yearly gross income must be

With mortgage men doing a great deal of thinking and speculating now as to what might happen to their business if the federal government gets into direct lending as is now being proposed in various ways, the State of Connecticut has gotten the jump and embarked upon a direct lending program such as has never been seen in this country before. It is a $30,000,000 project whereby "moderate income" families, both veteran and non-veteran, can build or buy their homes financed with mortgage loans from the State at 1½ per cent.

For those who are wondering how far this sort of thing can go, Connecticut has part of the answer. Trouble in this New England paradise is already developing, however. Some savings banks in the State are objecting to the regulations, particularly the one which says they can't get a fee for making construction loans for people building homes for their own use. The director of the program is standing pat so that part of it will have to be resolved.

Donald Nettleton

When the legislation was originally passed, The Mortgage Banker asked Mr. Nettleton to report on it. He accepted the assignment but advised waiting a while until the program "settled" and it could be more clearly seen what direction it would take. It is going now and this is his report, one which should interest every mortgage lender and investor looking to the future. Mr. Nettleton is president of The Lomas & Nettleton Company of New Haven, Conn., and has spoken at past MBA Clinics. Incidentally, Mr. Nettleton's Company is participating in the program as a State Correspondent and gives you the reasons why he decided it was the best thing for him to do under the circumstances.

less than $2500 plus $600 for each dependent. This income includes incomes of all members of the family. Wives do not count as dependents. For example, a couple with no children can qualify if their income is under $2500. A couple with two children can qualify if their income is under $3700.

The reason for the income-limit rule is to assure that, by and large, no families will be accepted if their incomes are high enough to permit them to buy homes by borrowing from banks or other private sources.

» His available net cash worth must be less than $3000. This rule prevents the state from lending to families able to buy homes outright from savings or able to get along with low-percentage mortgages.

» His family is not properly housed at present. This does not mean that his present home must necessarily be old and run-down but only that the dwelling does not meet the reasonable requirements of his family. Small size and unduly high rent are among factors which can mean his family is not properly housed.

A corporation wholly owned by such families or a co-operative limited to such families is also an eligible borrower.

Housing to be eligible for a state mortgage must have been started after October 20, 1949, and must have FHA approval prior to start of construction. Such housing shall also be subject to the following requirements:

» The property must be real estate held in fee simple, or a leasehold estate under a lease for not less than 99 years which is renewable, or under a lease with a period of not less than 50 years to run from the date the mortgage is executed.

» The property must be both moderate cost housing and new housing construction and shall be designed for the accommodation of one family only, except that if the property is to be owned by a corporation or cooperative it may be designed to accommodate exactly the number of families of moderate income which own the corporation or are members of the cooperative.

» The buildings on the mortgaged property must conform with the standards established by the State Housing Authority. The Authority standards are identical with the Federal Housing Administration standards.

» The State Housing Authority shall have the right of inspection of any housing during the period between the date on which construction thereof begins and the date the state loan is fully paid.

» The mortgaged property, if otherwise acceptable to the State Housing Authority, may be located in any community or in any part of or place in any community where the housing standards meet the requirements established by the State Housing Authority. The Authority requirements are identical with the Federal Housing Administration requirements.

HOW IT HAPPENED

"While the objective (of the program) may in theory be good, to some of us it may seem that the evils it can create — politically, socially and with the State's future economy—may not justify the goal. However, this program was given support by both political parties; and there is no doubt that the State is prepared to enlarge its own facilities and handle the loans direct if private institutions do not act as correspondents."

» The mortgaged property shall meet all the requirements established in local zoning and building laws and codes, except that such requirements shall be waived with respect to any housing, otherwise eligible under the Regulations, if the State Housing Authority determines that the public interest will be served thereby.

The mortgage on such properties must not involve a principal obligation or maturity in excess of FHA and VA limits. Typical financing will, therefore, be for a twenty-five year term on a property in the $7500 to $10,000 price class. At a 1½ per cent interest rate, monthly carrying charges will average $10 to $15 less than at a 4½ per cent rate, thus enabling the so-called moderate income family to own a home which hitherto would have been beyond its financial ability to carry.

This home ownership program, in order to encourage construction of a large quantity of this housing for purchase by the eligible applicants, also provides that the State may make direct construction loans to a builder and may, in addition, enter into an insured market agreement with the builder.

Operative builders may borrow construction money from the state at a rate of interest of 3½ per cent. The principal amount of the loan is limited to 80 per cent of the estimate of value of the property as established by the Federal Housing Administration and must have a maturity which is not in excess of 8 months from the date of closing. However, the maturity of the loan may be extended with the approval of the State Housing Authority if it deems such an extension to be desirable. The builder may arrange for the disbursement of construction loans or construction advances in installments, and such installments are limited to a reasonable percentage of the value of the work in place at the time of the disbursement.

In every instance where a builder utilizes a state construction loan, he is required to agree not to offer or sell the property to any purchaser other than an eligible buyer, who has been certified by the State Housing Authority, until a period of 60 days has elapsed from the date of the completion of construction as determined by the Federal Housing Administration.

In other words, builders who use state construction loans deliberately limit and confine their markets to eligible moderate, income families, while builders who use construction loans made by private lenders are free to sell their houses in both markets—eligible moderate income families and families with higher incomes. Only those properties which meet all FHA requirements and on which the FHA has issued commitments prior to the commencement of construction are acceptable to the State Housing Authority for State construction loans.

For a fee of $50 per house insured, a builder may insure any or all of the projected houses in his development. Under the agreement the builder agrees to hold all houses insured for sale only to certified families of moderate income for a period

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How far have

GUARANTEED AND INSURED LOANS

taken us on the road to nationalized credit?

By EARL R. MUIR

AS THE second half of the Twentieth Century opens, we are confronted with a decision that seems to me to be a momentous one. For nearly twenty years, ever since the Great Depression engulfed business, industry and agriculture, we have been postponing this decision which transcends the practice of banking and enters the realm of fundamental banking principle.

It concerns government-guaranteed loans.

Earl R. Muir

Our decision will be vital in determining whether or not twenty years from now we are still the risk takers, and hence the bankers, for the American people and their economy.

It was during the depression that the principle of government direct loans and loan guaranties for business and industry first was developed. It started as an "emergency" idea, intended to be temporary, and designed to help tide the nation safely through an economic crisis. But the development of the political habit of visualizing one national emergency after another, magnified by the extraordinary demands of World War II and capped with the inevitable period of postwar readjustment, gave tremendous impetus and growth to the government's loan and loan guaranty functions.

At the start of the depression, the total lending power of the few then-existing, government-sponsored credit agencies was only a few hundred million dollars. Today, the total of direct loans and guaranteed loans of nearly a score of government credit agencies exceeds $20 billion. To be exact, the total of these loans and guaranties at the start of last year, the latest data for which complete figures are available, was $20,520,000,000, *an increase of about one-third in one year's time.*

During 1949, government loans and guaranteed loans again expanded. Their total now is approximately $23 billion. This is an amount equal to well *over half* of the total loans of all types outstanding on the books of the nation's 14,000 commercial banks. It does not include any loans to foreign governments. It includes only loans and loan guaranties for domestic business and industry, transportation, home owners, and farmers.

The United States Government, through its various lending agencies, is today the nation's—and the world's—biggest banker and guarantor of credit. Whether or not this is a healthy development, I leave to the political philosophers to decide. To me, as an individual citizen, it appears to be another foundation stone in the building of a socialist state.

The total figures of government loans and loan guaranties turn up some interesting facts. Of the total outstanding, about one-fourth, or well over $5 billion, are direct loans to borrowers. The balance consists of guaranteed loans and loan insurance provided by government agencies. I will not argue the point that at least some part of the direct government loans are loans that cannot be made by private lenders; but I do insist that many of them are uneconomic loans which never should have been made in the first place. Although some may be said to serve useful, socially worthwhile purposes, others have turned out to be a permanent investment of public capital in projects of doubtful value today. For example, no one doubts that loans made by the government's Inland Waterways Corporation in the early 1920's, and still outstanding and unpaid, are of a questionable nature.

Government guarantee and insurance of loans began during "emergency" days but if they are any criterion we have never emerged from any of our past emergencies. Today the government guaranteed loan is the mouse that became a mammoth. They total well over $20 billion and the end is no where in sight. Instead, slapping the government guarantee on some risk project is just about the most intriguing possibility our national legislators seem to be concerned with these days.

But a decision one way or the other will have to be made some day and, as Mr. Muir says in this article, it would seem that the time is right now. "We cannot evade risk. We can try to dilute it by accepting government guaranty but we take on the greater risk of eventually being displaced from the nation's economic life and replaced by the very guaranties of government we accept. We must make our decision. Successful lending consists of making the right decisions. We must make the right one and make it now."

Mr. Muir is president of the Louisville Trust Company, Louisville, Ky.

During the last session of Congress, the loan and loan guaranty limits of all government credit agencies taken together were raised about $5 billion. This includes authorization of an additional $1 billion for the RFC to use in acquiring mortgages through FNMA. It includes an increase of $2 billion in the loan guaranty powers of the Public Housing Authority and an increase of $1,275,000,000 in the loan-insuring capacity of FHA. It includes an increase of $225,000,000 in the lending capacity of the Rural Electrification Administration.

No End to It

Nor is the end in sight. During the current session of Congress, we expect legislation to be introduced which would authorize the Federal Reserve to take up to $500,000,000 of 90 per cent participations or guaranties of loans to small business. We expect another bill creating a Veterans Economic Development Corporation with a total lending capacity of $5 billion. Still another bill would create a new business loan insurance corporation to insure small business loans made by commercial banks, at a rate premium of 1½ per cent, similar to FHA insurance. This bill, sponsored by the Small Business Advisory Committee of the Department of Commerce, would also establish a "catch-all," paper-buying agency for small business loans similar to FNMA. We are also anticipating another legislative overhauling of the RFC to curb its loans to large industries and to revitalize its lending services for small business. The President's Economic Message to Congress recommended more liberal RFC lending terms. It also implied the creation of still another government agency for loans to small business.

There was a brief period after the war when we believed that the lending activities of some government agencies might be curtailed. The Smaller War Plants Corporation's assets were transferred to the RFC for liquidation, and its charter was allowed to expire. The ten-billion-dollar RFC was thoroughly examined in 1948 by a very able subcommittee of the Senate Banking and Currency Committee, and its lending capacity was limited to $1½ billion, with allowance for an additional $1,100,000,000 of its loans in liquidation. Those of us who testified before the subcommittee on behalf of banking pointed out that the RFC during the depression and the war had demonstrated distinct usefulness, but that the banks were providing adequate credit for large and small business, and RFC should be continued only as a stand-by, emergency organization.

We demonstrated the extent to which the banks were taking care of the credit needs of small business by pointing out that 88 per cent of all bank loans then outstanding were for less than $25,000, and almost a fourth of all loans were for less than $1,000. We testified against deferred participation loans by RFC. We showed that they were a particularly vicious type of government-guaranteed loan to private industry, under a different disguise. This and other testimony helped bring about the best revamping of the RFC's functions that had been accomplished in its 16-year history.

Yet, less than six months ago, banking had to go before Congress again to oppose a bill which would have doubled RFC's lending capacity, increasing it to a maximum of $5 billion, and granting it power to extend the maturities of its loans beyond ten years. Fortunately, we were at least temporarily successful in testifying against this proposal to reenlarge the RFC's powers.*

Mid Century Problem

So today—at the start of a new decade and a new half century—we are faced with a decision. The 1930's were a decade of depression. The '40's were a decade of discontent. The 1950's are a decade of decision. In less than twenty years, we have seen government lending and government-guaranteed loans to business, industry, home owners and farmers grow from a few hundred million dollars to well over $20 billion. They have grown through depression and war, in good times and bad, in peace and prosperity.

In this year of 1950, we shall probably see government credit agencies go before the Congress to ask for additional loan and loan guaranty authorizations of at least $6 billion.

We are not in a depression. We are not at war. We have no national emergency. What justification is there for this further sapping of the vitality of private credit? To what extent is it due to the willingness of private lenders to accept government guaranty, to cast aside the risk-taking function which sustains them, and, by default, go down the road toward nationalized credit? There are turning points on that road, but the turn cannot be made without a decision to make it.

Decide Now

If a loan cannot be made by a lender to a borrower without the guaranty of government, then the loan is not worth the risk to any one, including the taxpayers. That is the decision each of us faces day in and day out. How shall we make that decision—as risk-taking lenders or as purveyors of government credit?

Practitioners of American medicine know that health cannot be nationalized. Either it is present or it is absent. If it is absent, it may be restored, but not by the unctions of benevolent government. So the doctors are fighting a trend which they know to be a threat to the integrity of the art and science they practice.

The farmers know that they can never evade the risks of soil, weather, and the market. Some of these risks may be diluted by government guaranty, but the National Grange opposes the guaranties of the Brannan Plan because it knows the price agricultural enterprise would pay to bureaucracy in exchange for those guaranties.

We too cannot evade risk. We can try to dilute it by accepting government guaranty, but we take on the greater risk of eventually being displaced from the nation's economic life and replaced by the very guaranties of government we accept. We must make our decision. Successful lending consists of making the right decisions. We must make the right one, and make it now.

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*Another RFC investigation is in the works and this time, according to Senator Fulbright of Arkansas, it will be a sweeping one. He said he would assemble an investigating staff, and that it would not be the same group which advised during the revision of the RFC Act by the 80th Congress. He said that the hearings would be conducted "from a slightly different point of view."

He said he believed that the RFC's lending policies were "not in accord with the intentions of Congress in writing the law."

The probe of RFC lending policies coincides with consideration of several bills designed to expand greatly the scope of RFC lending. The Administration's bill, entered by Senator Lucas, would provide for 90 per cent RFC participations in character loans to small business. A bill by Senator O'Mahoney would set up a system of small business capital banks.

★ New Ideas in SERVICING

THIS METHOD OF PAYING REAL ESTATE TAX BILLS PROVED VALUABLE FOR US

By G. D. STILLSON
Assistant Treasurer, The Moss-Rouse Company, Baltimore

THE theoretic functioning of any mortgage servicing department is basically an elementary procedure. Payments are due on a set monthly date, and the majority of loans provide for the accrual of escrow funds with each payment. The account analysis provides for a fixed amount of the sum total to be allotted to the annual disbursements in accordance with their respective due dates.

But at this point any similarity to an elementary procedure ceases. Methods and systems of control are as many and varied as the complexities that will arise in any business that must provide for handling a mass of details on a volume basis. It is the repetitious type of detail that creates the best opportunity to effect economies and cost of operation; yet because of their self-sustaining nature they are frequently the last to receive proper attention as costly factors.

One that presents a problem to most servicing offices is the payment of the real estate tax bills. Here is an idea that has proven valuable to our company in controlling their payment.

Our mortgage portfolio consists of loans in Baltimore and three surrounding counties. Consequently, tax bills are received from four different tax offices, each with their own respective due dates, discount privileges, penalties, and assessment rates.

In setting up new loans on servicing records, two of the several functions involved provide for the tax payment procedure. First, we notify the proper tax office by printed form penny post-card, that "A mortgage on the property located at ———— in the name of ———— is now held by The Moss-Rouse Company. Until further notice, please send tax bills on said property to our office." The card bears our firm name and address. The tax collector's office address is printed on the other side. The second step is to set-up a tax tickler card for the tax control file, which is merely a carbon copy of the typing that is inserted on the tax office postcard notice. This record is merely a three-colored card system, each providing for loan number, full name, property address and settlement date. This system also enables us to earn for our borrowers certain discounts that are given for early payment by various counties.

Get 50-100 Each Time

The white card represents a ledger account that contains the escrow deposit accrual, for funds previously analyzed and set, to allow for regular routine payment at the normal due date (without interest deducted or penalty added). A red card indicates a ledger account that provides by accrual, sufficient funds to permit prompt and early payment to gain the full discount allowed. A blue card signifies that the representative ledger account is the type of mortgage that does not contain the escrow fund provision, and consequently, the mortgagors will provide for their own payment.

The tax bills are delivered to our office in quantities of from fifty to several hundred at a time from the various tax offices. An employee alphabetically arranges each group, and then assigns the loan number obtained from our visible index file to each bill. The bills are then given to the record clerk, who having pulled all red cards, now selects the like tax bills by loan number arrangement. An adding machine tape is then obtained of the total of each bill in the "red card group." While simultaneously checking and ticking each total figure off, the loan number is inserted along side of each item on the tape. After proving the total correct, the tape and bills are given to the disbursement clerk to draw a check for the total amount.

When mailing this remittance and the accompanying tax bills, a two by four printed card is attached, stating, "Please receipt and return to: The Moss-Rouse Company." No part of these bills is designed for our retention, so we must request that the receipts bearing the property owner's name and address be returned to our company.

After the disbursement, the bookkeeping machine operators post each ledger account direct from the tape

As The Mortgage Banker, with our new servicing department, gets deeper into this side of the mortgage business, it is clear that there are many methods of doing almost everything. But more significant is the fact that there are a lot of methods and procedures in use today which should interest every mortgage office but which are being followed only in isolated instances. Our inquiries after new ideas and methods are turning up a lot of suggestions; and you will be reading about them in this section in the months to come.

This month we have articles on paying real property tax bills which may suggest some changes in many offices. The companion piece is about that eternal problem of spreading the work on FHA and VA payments to avoid that first of the month rush. These excursions into more efficient servicing methods represent a project of the Research committee headed by Guy T. O. Hollyday with on-the-spot consultation and editorial advice from the vice chairman, William I. De Huszar.

which has been stapled to the check voucher copy. After the receipts are returned from the tax office, the record clerk receives them direct and rubber date stamps the back of each red card now paid. These cards, having been held aside to await this action, are now filed away for another year.

Delinquency Control

When the specific month due arrives to pay for the city and each of the three counties' bills, the same procedure is followed in paying the white card tax accounts. Blue cards reflect at any time, the number of mortgagors who have not presented their receipts for recording purposes, thus segregating those that require a follow-up form letter to please do so. These blue cards are noted each year on the reverse side with a special rubber stamp providing for the insertion of amount and date paid, as each receipt is presented to our office.

How do we control delinquent accounts and know that we do have sufficient funds in each mortgagor's expense account? We supply the record clerk with a copy of each mortgagee company's delinquent report of loans serviced. These particular tax bills are of course set aside, handled separately, proper penalty added, and then paid when our collection personnel notifies us that the account is current, by the deletion from the next month ending delinquent report. For all other expense accounts, we do have confidence in our account accrual method to allow for any disbursement.

Flexibility

Suppose, you ask, "Is it possible that we may fail to set-up a tax tickler card?" Well, we have eliminated this possibility by reducing the functions of setting up loans on all our records to a very simple routine. The governing factor is a rubber stamp check-off block system (listing each record prepared) so that no one step can be overlooked.

Paid-off loans are closed out by a similar check-off block that causes the removal of the tax tickler card. Also, another form printed postal card is mailed to the tax office, requesting that they do *not* mail the tax bill to our office, since we have no further interest in the property.

We like the flexibility of maintaining this record as a separate control, thus avoiding conflict with the bookkeeping machine operators by eliminating the necessity of removing our ledger cards for constant review, as was formerly necessary.

The big achievement, however, was to adequately control those red card accounts. Where the taxes are exceptionally large, the discount privilege sizable, and the accrual provided, we must have a quick, easy and proper segregation. If we can continue year after year to give the kind of mortgage service that reflects nothing less than an accurately timed performance, then our two-fold responsibility to the mortgagee and the mortgagor has been accomplished.

This idea of a tax tickler file in practice has proven the foregoing statement, and also has convinced us that the achievement was satisfactorily made with an inexpensive method.

THIS PLAN OF SPREADING THE WORK IN FHA AND VA PAYMENTS SAVED US MONEY

By F. L. EATON
Treasurer, General Mortgage Corp., Longview, Wash.

IN THE servicing of FHA and GI loans, the most serious problem we have had was an overload of work for the cashier department on the first of each month, as all payments came due on that day.

To spread this work, we devised a form* which gives the following information: customer's name, loan number, amount of interest, date interest paid to, amount of principal payment, new principal balance, amount collected for trust funds, amounts paid out during month chargeable to trust funds, the date these items were paid and what the payments were for, new balance of trust fund, any past due charges, total payment and the name of the Company for whom the collection was made.

This form is in triplicate. The first copy is used for balancing cash and becomes a permanent record for supporting deposits. The second copy is used for posting the customer's ledger and remitting to the various principals. The third copy may be used for a customer's receipt in the event pass books are not used or if the customer does not have his pass book with him when making payment.

*Copy sent on request.—Editor

Each year, immediately after property taxes have been paid and any adjustments made in the amounts of the monthly payments, one employee then prepares these forms in advance for the *full year* on all accounts outstanding at that time. These are all filed alphabetically by month and during the slack time on collections the cashier only has to make up slips on new loans acquired each month and check the prepared slips against the ledgers to eliminate any slips for loans paid in full or any miscellaneous errors that might have occurred.

2000 Loans—One Cashier

With these slips at hand when the customer comes in to make payment, the cashier has no computations to make but merely inserts the date and copies the applicable figures in the pass book. Under this system we are able to service approximately 2,000 loans with one cashier who also has various other duties in connection with servicing and acquisition of mortgages. As our system is entirely hand posted we have one additional clerk who posts all the customers' accounts and prepares all remittances to our principals.

It should be pointed out that the preparation of these slips on a yearly basis saves considerable time and expense since the clerk has the amortization table and the ledger card before him and takes little more additional time to prepare 12 slips than it does to prepare one. Where we have only had to pay a part-time employee for about 250 hours per year in the preparation of these forms we would have to hire at least one additional girl full time for our cashier department if they were prepared monthly.

The above outline of our procedure of course does not go into the detail of what effect and savings this form has made in other phases of our accounting. However, after an extensive study of hand posted accounting systems, we feel we are servicing loans at a minimum cost with maximum efficiency.

Who gets THE MORTGAGE BANKER *in your office? We would like to have your servicing or office manager see it each month, especially the servicing section. Back numbers of the issues which have carried this department are available upon request to the national office.*

WE'RE NEARING A CRISIS

(Continued from page 5)

3 per cent; and loans would be available on terms up to 50 years or, if refinanced, up to 60 years. A provision also permits a possible deferment in payments of both principal and interest, if it is needed, for a period up to three years.

Loaning funds for the new corporation would be obtained by selling bonds and debentures in the investment market with a federal treasury guaranty. This goes far beyond the FHA set-up under which private capital provides the loans subject to federal regulation.

Same as Direct Lending

Isn't this a form of direct federal lending? If the treasury department were to float a new issue of 3 per cent bonds to lend to cooperative projects, the effect on the mortgage market would be no different. Thrift institutions derive a substantial portion of their income from mortgage loans. If the government is going to take over the mortgage investment field covering the middle-income group and substitute bonds as an investment for lending institutions, what will be the effect on the ability of thrift institutions to pay the going rate of interest or dividends on savings? What would be the net benefit to the middle-income group who have nearly all of their life savings in banks, savings and loan associations, and life insurance companies? An attempt to solve one problem in this way may very well create a dozen other problems for those benefited if the proposed plans for cooperative lending by a government agency are approved by the Congress.

It is estimated that some fourteen million families in the middle-income group would be eligible for these mortgage loans. Is there any reason to suppose that they will seek home financing from private sources if loans were available through government means at the prevailing rate for government bonds, and with payments that run for fifty years?

The loss of possible income to mortgage lending institutions, if this legislation authorizes the government to take over a huge segment of the mortgage field, has grave implications. Obviously, to offer as a substitute, bonds and debentures of the corporation at the going rate of government credit is no solution for the banks or the vast number of Americans who look to them for a fair return on their life savings.

"If the government is going to take over the mortgage investment field covering the middle income group and substitute bonds as an investment for lending institutions, what will be the effect on the ability of thrift institutions to pay the going rate of interest or dividends on savings?"

Great harm can come to the veteran, the taxpayer, and to the American savers by continued congressional legislation liberalizing mortgage credit and expanding government activity to the detriment of private enterprise. Ample mortgage funds are available at costs which have remained modest in an economy in which costs generally have substantially increased. There is no need for direct federal loans, and there is grave danger in fixing low interest rates on real estate loans by government decree.

DES MOINES, MIAMI AND DENVER WILL HOLD MBA MORTGAGE CLINICS IN MARCH AND APRIL

As a part of the expansion of MBA activities in 1950, the Association will sponsor three Mortgage Clinics during the year. They are:

MIAMI, March 30-31, Hotel McAllister, with local arrangements in charge of Clyde W. Kistler.

DENVER, April 17-18, Cosmopolitan Hotel, with local arrangements in charge of MBA Past President Aksel Nielsen.

DES MOINES, April 19-20, Hotel Savery, with local arrangements in charge of Earl Linn, MBA regional vice president.

The program for each of these Clinics will follow a similar general pattern:

First morning: Review and discussion of MBA's legislative program and a close examination of legislative developments nationally with W. A. Clarke, chairman of the special committee on legislation, and Washington Counsel Samuel E. Neel as the principal speakers.

First afternoon: Comprehensive analysis of interim financing.

Second morning: Exploration of cost accounting for mortgage lenders

Second afternoon: Discussion of local mortgage problems.

These three regional Clinics supplement the two large regional Mortgage Conferences being held in Chicago and New York, the latter scheduled for April 10-11.

ASSOCIATE EDITOR OF MBA TEXTBOOK NAMED

Dr. Homer V. Cherrington, professor of finance, Northwestern University, has been named associate editor of MBA's *Textbook on Mortgage Banking*, Robert H. Pease, editor, announced. This textbook is being developed through the contributions of 34 different authors. Dr. Cherrington will edit the manuscripts to provide a complete and cohesive text.

Dr. Cherrington is the author of *Business Organization and Financing* and has had wide experience in editorial work.

About 90 per cent of the manuscripts have now been received. Each has been studied by the editorial staff consisting of S. M. Waters, Minneapolis; William L. King, Washington, D. C.; H. J. Mendon, Los Angeles; Robert B. Patrick, Des Moines; Dean R. Hill, Buffalo, and Frank D. Hall, New York. The staff will meet February 22 to make final plans for developing the finished book. Present schedule requires submission of the manuscript to McGraw-Hill Book Company, publisher, by September 15 and publication early in 1951.

1950 CENSUS TO GET DATA ON MORTGAGES

This spring the Bureau of the Census will hold the mirror up to the nation and its progress when it conducts its 17th Decennial Census and MBA is taking an active part in plans to make this the most valuable census ever taken. The Census was originally authorized by Congress to determine the population base for each state's congressional representation but it has grown far beyond a mere population count.

The first two censuses were limited to population alone. In 1810, a Census of Manufacturing was taken. Thirty years later, in 1840, came the initial Census of Agriculture. In 1929 the first Census of Business was taken to survey the nation's system of distribution and 1940 brought the first Census of Housing. This year, for the first time, the Bureau will conduct a broad Census of residential financing indicating the importance of this business in the nation's economy.

It will develop basic statistics on the financing of residential property particularly as to conventional loans and the activities of individuals as investors. The impetus from the survey apparently developed from two sources: first, to secure data from which the total mortgage debt of the United States could be computed with greater accuracy; and, second, to determine how government guaranteed loans are covering the mortgage market.

This is not the first year that questions on mortgage financing have been included. In 1940 the Census on Housing contained questions pertaining to the mortgage field, including such things as value of the property, number of dwelling units, whether or not it contained a mortgage, the amount of the debt, the interest rate and such related data as color and race of owner, number of persons in household, etc. The

PEOPLE AND EVENTS

Aubrey M. Costa, MBA board member, has been elected president of the Southern Trust & Mortgage Co., Dallas. F. M. Love was elevated to the position of chairman of the board, John T. Sears was elected vice president, W. W. Salmon, secretary and treasurer, E. C. Greene, assistant secretary, and Pat McCall, assistant treasurer.

Bertrand W. Bendell has been elected vice president of The Cuyahoga Estates Company and Mullenix Mortgage Company, Cleveland, both headed by Charles A. Mullenix, former MBA president.

Mr. Bendell for the past thirteen years has been manager of the real estate department of Berkshire Life Insurance Company, Pittsfield, Mass. Prior to that he was with HOLC in Cincinnati.

Frank J. Mills, cashier of Fort Wayne National Bank, Fort Wayne, has been named vice president of the bank along with Carl L. Tewksbury. Joseph M. W. Miller has been named cashier. . . . Theodore M. Wilson and Robert H. Wilson, both sons of Percy Wilson of Percy Wilson Mortgage and Finance Corp., Chicago, have been elected vice presidents of the firm. . . . George Becker has resigned as executive vice president of Salk, Ward & Salk, Inc., Chicago, to continue independently his practice as real estate appraiser and consultant. . . . In St. Louis, Charles H. Christel, vice president, Rodemyer, Christel & Co., has been appointed to the school board.

data secured, however, was sketchy and of little value.

The 1950 Census will be made on a sample basis. The general Housing Census to be conducted as a part of the regular population survey will contain questions showing residential structures mortgaged and those free and clear of mortgage loans. The samples for the financing survey will be chosen from the properties subject to mortgage liens. Structures covered by the census will include residential units, both owner and tenant occupied and types of rental projects including our largest developments. Much of the basic information will be collected from the borrower but it will be essential that data regarding the mortgage itself be collected from the lenders.

A technical advisory committee has been appointed to assist the Bureau. Included are representatives of ABA, the life companies, the savings and loan associations, the federal reserve banks, Housing and Home Finance Agency, the Bureau of the Budget and others. MBA is represented by Frank J. McCabe, Jr., director of education and research, who has participated in two conferences in New York and one in Washington to make preliminary plans. Sample surveys are now being conducted in Raleigh, N. C., and Chicago to determine the type of information that can be collected and the most effective way to get it.

The regular Census starts April 1 and the Census on Residential Financing on or about September 1.

MBA EASTERN MORTGAGE CONFERENCE SET FOR COMMODORE, NEW YORK, APRIL 10-11

What appears will be one of MBA's largest meetings, our Mid Winter Mortgage Conference at the Drake Hotel, Chicago, February 23-24, will open in a few days followed by our Eastern Mortgage Conference at Hotel Commodore, New York, April 10-11. Members who have not made reservations for Chicago still have time to do so. Hotel accommodations at the Drake have been exhausted but members can stay directly across the street at Hotel Knickerbocker where so many past MBA meetings have been held.

Hotel cards for New York will be out soon and early reservations are advised. Among the speakers will be:

» Sen. John Sparkman of Alabama.

» Franklin D. Richards, FHA Commissioner, who will discuss FHA's operations and plans.

» Bertram E. Giesecke, chairman of the defense housing commission who will discuss the housing problems of our armed forces.

» Maurice R. Massey, Peoples Bond and Mortgage Company, Philadelphia, and former assistant FHA commissioner, who will discuss rental housing.

» Thomas P. Coogan, first vice president, National Association of Home Builders, and chairman of its mortgage finance committee, who will discuss the building and mortgage outlook.

» W. A. Clarke and Washington Counsel Samuel E. Neel who jointly will discuss MBA's legislative program.

A feature of the Chicago meeting will be the address of Wallace Moir, president of the Belmont Company, Beverly Hills, Calif., who will be the last speaker at the two-day meeting.

His subject is general enough—A Few Ideas for Mortgage Men Off the Cuff—but his specific topics get down to the heart of the way mortgage lending is done today. Out at Smoke Tree Ranch in Palm Springs, Calif., he is now working on what he will have to say and it will center around such things as: Why more profits from the mortgage business? Take care of your greatest asset (and he will tell you what that is). The hour may be later than you think for mortgage bankers. How to give more, and get more, from MBA. Work for a fair prepayment privilege and save your business. Do not sell your business for a measly finder's fee. Watch and work for the conventional loan. Why should insurance companies use correspondents?

If all this doesn't stir up the interest of mortgage men, probably nothing will.

"Enterprise has made progress—in some quarters making people feel that the government has gone far enough. If private enterprise can get costs down and maintain the persistent housing production of the last few years, then I don't think you are going to have a great deal more interference from government."

The course was the most successful yet held with more than 80 attending.

CAMERA AT MBA-NYU COURSE: 1, left to right, front row, C. Armel Nutter, Camden, N. J., and Thomas E. Lovejoy, Jr., New York, who as vice chairman headed up the MBA-NYU course this year; Dean G. Rowland Collins of the graduate school; MBA Vice President Milton T. MacDonald, Jersey City; Lawrence A. Epter, president of New York MBA; and Harry C. Peiker, New York. Back row: C. Stewart Sheppard of the graduate school; Walter Gehrke, Detroit; James W. Rouse, Baltimore; Paul O'Keefe, vice president, James Felt & Co., Inc., New York, who lectured at the course; and Dean Herbert Schiffer.

2. READY FOR A LECTURE: Dr. Jules I. Bogen, professor of finance at NYU; Dean Collins; Dr. Solomon Fabricant, professor of economics; and Martin R. Gainsbrugh, lecturer on economics and chief economist, The National Industrial Conference Board.

3. BOGEN ON INTEREST RATES: Thursday morning Dr. Bogen spoke on long-term interest rates and the MBA-NYU registrants listened.

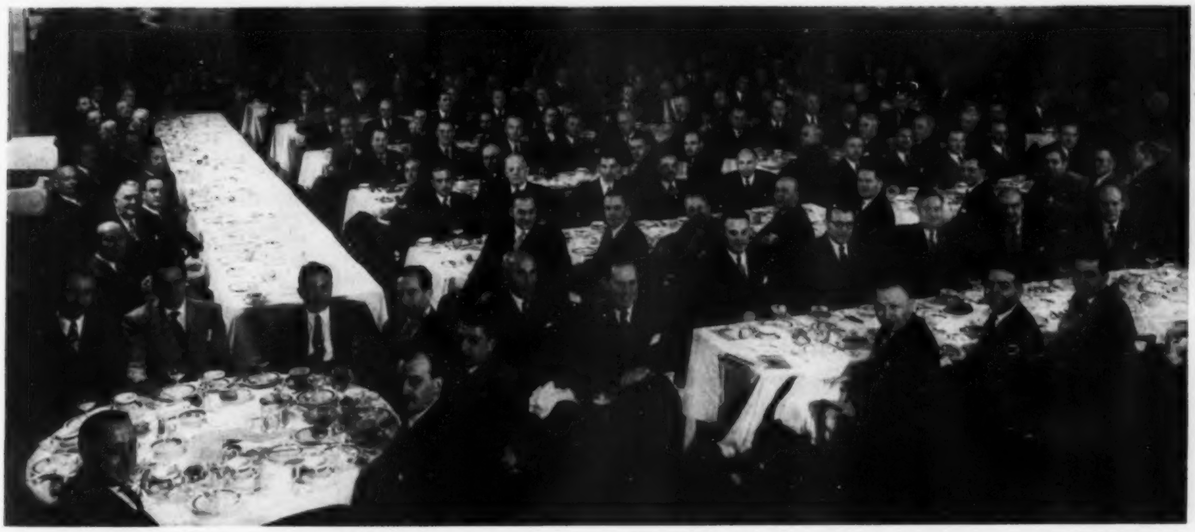
MBA-NYU 1950 COURSE IS LARGEST YET HELD

The function of government in business "is to do only those things which business itself cannot do," Leon H. Keyserling, acting chairman of the President's Council of Economic Advisers, told MBA members at the opening dinner meeting inaugurating our fifth annual Senior Executives course at the Graduate School of Business Administration of New York University.

"When the people express the need, then, whether they be right or wrong, action follows. Rightly or wrongly, the people have expressed their feeling overwhelmingly of a need for housing, for example, and the government therefore is trying to do something about that problem," he said.

PRESIDENT DEMING IN AUTOMOBILE ACCIDENT

Just as this issue went to press, news was received of the serious automobile accident involving President R. O. Deming, Jr. He was driving from Tulsa where he had spoken before a meeting of the Real Estate Board when his car crashed with another just six miles from his home city of Oswego, Kan. President Deming sustained injuries to his hip and ribs and suffered from shock and bruises. He is now in the Oswego Hospital and will be confined for several weeks. His engagements for the next 30 days have been cancelled but it is hoped that shortly after he will be able to resume his activities.



At the dinner session opening the MBA-NYU Senior Executives course where Leon H. Keyersling told the assembly, which included members of the New Jersey MBA, that business and government must look forward to continued expansion to meet the increasing needs of our growing population. At the speakers table, left and beginning in the foreground, are James W. Rouse, Walter Gehrke, Thomas E. Lovejoy, Jr., Vice President Milton T. MacDonald, George Underwood, Paul P. Swett, Mr. Keyserling, Dean Collins, President R. O. Deming, Jr., Secretary George H. Patterson, C. Armel Nutter, John C. Thompson and Sproule Love.

140 NEW MBA MEMBERS

This year's membership campaign under the direction of E. R. Haley, Des Moines, chairman, is getting into high gear and is running considerably ahead of any previous year. So far, 140 new members have been admitted. Initially, solicitations were made among the mutual savings and commercial banks all over the country with good results. Following that, the title companies not now members were contacted, and the present phase of the campaign is devoted to correspondents of the life companies which had previously not been affiliated with MBA. Here the results have been extremely favorable, and it begins to appear that with the windup of the campaign, the association will represent the overwhelming bulk of the mortgage correspondents of the country.

Recent new members admitted are:

ALABAMA, Dothan—Harry Hall Company, Inc.

ARIZONA, Phoenix—Phoenix Title & Trust Company.

KANSAS, Abilene—The United Trust Company.

MARYLAND, Baltimore—Arlington Federal Savings & Loan Association.

MASSACHUSETTS, Newton, Newton Savings Bank; Springfield, Monarch Life Insurance Company.

NEW JERSEY, New Brunswick—New Brunswick Savings Institution.

NEW YORK, Brooklyn, The East New York Savings Bank; Freeport, The Meaddowbrook National Bank; New York City, Central Savings Bank in the City of New York.

OHIO, Akron, Evans Savings Association; Springfield, The Springfield Savings Society of Clark County.

PUERTO RICO, San Juan—Banco Popular de Puerto Rico.

SOUTH CAROLINA, Greenville—General Mortgage Company.

TEXAS, Beaumont, The American National Bank of Beaumont; Houston, Citizens State Bank; The City National Bank of Houston; South Texas National Bank of Houston.

Success Story at Fifty

Of all the success stories that can be found in the history of MBA and the mortgage industry, probably none has as many elements of success in it as that of Byron T. Shutz of Kansas City who headed the Association in 1939-40 when he was only 39 years old and was our youngest president, before or since. Recently the *Kansas City Star* paid Byron Shutz a tribute such as few men ever have the pleasure of experiencing during their lifetime. In a long recount of a career that seems to be the kind that happens only in America, the *Star* reviewed a quarter-century of activity for Byron Shutz under the title of "Leaders in Our Town." And activity is the word because his career has been a constant procession of achievements and worthwhile accomplishments.

Byron T. Shutz

Just about everything in Kansas City has had a helping hand from Byron Shutz. In 1944 he headed the Red Cross Drive, he worked in the CED and has been active for years in Boy Scout work. He has served as chairman of the Philharmonic, is on the board of the American Royal and has been a director of the Chamber of Commerce. He was the youngest president the Kansas City Real Estate Board ever had. In 1941, when Missouri passed a real estate licensing law, he became one of the three original commissioners to set the machinery in motion. He is director of the First National Bank in Kansas City, vice president of Hotel President, Inc., director of Crown Drug Company and many others as well. He became president of Herbert V. Jones & Company in 1944 and, says the *Star*, is the young president of "a firm that makes a wide swath in everything connected with real estate. It represents eight insurance companies in making mortgage loans throughout this part of the Middle West, a multi-million dollar loan business."

EDWARD F. MEYERS IS CLEVELAND MBA HEAD

Officers for 1950 of Cleveland MBA are headed by President Edward F. Meyers, vice president of the Union Bank of Commerce, and include vice president J. F. Zook of J. F. Zook

Edward F. Meyers

J. F. Zook

Floyd Graham

K. P. Twombly

Inc., Secretary Floyd Graham, vice president of Ostendorf-Morris Co. and Treasurer Kenneth P. Twombly, manager of the mortgage loan department of Travelers Insurance Co.

ELWIN F. SMITH NEW UTAH MBA PRESIDENT

Elwin F. Smith, chief appraiser for Zion Savings Bank and Trust Company, Salt Lake City, has been elected president of Utah MBA. J. E. Benedict, treasurer, Tracy-Collins Trust Co., Salt Lake City, has been named vice president and J. F. Hegessy, manager, mortgage loan department, Miller & Viele, was named secretary and treasurer.

F. M. PETREE NEW HEAD OF THE OKLAHOMA MBA

F. M. Petree was elected president of the Oklahoma MBA at the 30th annual meeting of the Association in Oklahoma City. Seventy attended the meeting, principally from Oklahoma City, Tulsa, Newkirk and Ponca City. Petree succeeds Jack Vesper, Tulsa. Other officers include Louis Freeze, Tulsa, vice president; Ray McLain, Jr., secretary-treasurer, and Dale C. Chegwin, Oklahoma City.

SERVICING PROGRAM IS SCHEDULED BY N.J.MBA

Inspired by the success of MBA's Mortgage Servicing Center at last year's annual convention, the New Jersey MBA is holding a similar meeting March 9 at the Robert Treat Hotel in Newark, the first local mortgage group to organize a conference devoted exclusively to servicing.

W. I. De Huszar

Thomas E. Colleton, president, Lawyers - Clinton Title Insurance Company of New Jersey, Newark, Association president this year, named Milford A. Vieser, vice president, Mutual Benefit Life Insurance Company, as chairman of the conference with Walter J. Gill, executive vice president, Alexander Summer Mortgage Company; Leslie M. Steele, vice president, Underwood Mortgage and Title Company, and Philip Zinman, president, South Jersey Mortgage Company, Camden, as committee members.

William I. De Huszar, treasurer, Dovenmuehle, Inc., Chicago, author of *Mortgage Loan Servicing Practices,* will speak on collection and delinquencies. Andrew Holl, Mutual Benefit Life Insurance Company, Newark, will speak on taxes and Carton S. Stallard, Jersey Mortgage Company, Elizabeth, will speak on insurance.

W. A. Clarke, president, W. A. Clarke Mortgage Company, Philadelphia, will review pending national legislation and MBA's own program. John W. Kelly of Eastern Mortgage Service Company, Philadelphia, will speak on bookkeeping procedures and James W. Rouse of The Moss-Rouse Company, Baltimore, will speak on servicing costs.

Between 250 and 300 are expected. The conference is part of the association's educational program which has already included three GI clinics with an FHA clinic scheduled for April.

What They've Been Hearing: At the Seattle MBA, address by Gerritt Vander Ende, prominent Pacific coast savings and loan official, on what to look for the rest of this year, mortgage-wise. . . . At the Cleveland MBA, address by Rev. Robert Slaughter. . . . At the Sioux City MBA, W. L. Sloan, president, tell of city and county tax problems this year. . . . At the Detroit MBA, City Council President Miriani tell what the city plans to do under the terms of various improvement programs which have been authorized.

Note to Association presidents and secretaries: THE MORTGAGE BANKER has a continuing interest in any and all things which local mortgage associations are doing. Send them in.

CONNECTICUT STORY

(Continued from page 7)

of 60 days after the date of completion as fixed by the FHA. He agrees to make a diligent effort to secure buyers and is permitted to offer the houses for sale during an additional period of 30 days to buyers who fall in either classification, eligible or ineligible for State loans. Then, 90 days after completion, the builder may offer the house for sale to the State Housing Authority and the Authority will then purchase the house at a price equal to 90 per cent of the amount of the estimate of value established by the FHA or $9,000, whichever is less, provided there has been a really diligent effort to find a buyer and provided further that the State Housing Authority has not already purchased, under the provisions of the agreement, a number of houses in excess of the maximum number of houses insured under the agreement.

For the purpose of originating, processing and servicing these loans, in the case of both the builder and the permanent mortgagor, the State appoints Correspondents to act as its agents. The Correspondent may be a bank, trust company, mortgage company, savings and loan association, or other financial institution qualified by experience and facilities to act. The Correspondent will receive from the State one-half of one per cent per annum of the average principal balance of loans serviced, but gets no compensation for origination and processing costs except where State construction money is used by the builder, in which case a one per cent fee is collected from the builder, one-half of which is retained by the Correspondent and the other half turned over to the State.

Why They Participate

This particular housing program is, of course, a further example of government preempting a function hitherto carried on by private enterprise. While the objective may in theory be good, to some of us it may seem that the evils it can create, politically, socially, and with the State's future economy, may not justify the goal. However, this program was given support by both political parties in the last legislature and there is no doubt that the State is prepared to enlarge its own facilities and handle the loans direct if private institutions do not act as Correspondents.

To the direct loaning institutions the program cannot have too much appeal in that they, in general, are not geared to handle and service mortgages outside their own portfolios. In any case, it is somewhat questionable whether a correspondent, for an annual one-half per cent service fee, may be able to profitably absorb all the originating and loan processing cost with nothing more than a nominal fee in the case of construction loans. My own company, which is a service organization, has, however, decided to give our support to the program and act as a correspondent, (1) because, in our position, this service is more or less expected of us, (2) because a great majority of our builders have signified their intention of operating under the program, (3) because competition will be more or less limited, which in itself will perhaps lessen procurement costs, (4) because in many instances the builder no doubt will wish to employ our services as to his sales, and (5) to keep our own mortgage department fully employed this year inasmuch as it would appear that a large portion of the mortgages on single family residences will be placed with the State.

It seems to us that if governmental funds are to be loaned direct, it is at least much healthier for experienced private loaning institutions to handle the actual placing and servicing of the loans, and we shall use our best efforts to see that mortgagor benefits are not abused. We shall also hope that, upon the expiration of the program January, 1951, sufficient effective results will have been accomplished as to make further extension or enlargement of direct State loaning entirely uncalled for.

Connecticut Not Alone; Plenty of Housing Plans Being Cooked Up in Other States

ACTION will be taken by 1950 state legislatures to clarify the extent to which state legislative trends throughout the country will affect housing construction and financing activity.

The resultant action or inaction may provide the answer to whether the states will trend further toward socialized housing through additional subsidies and loan programs, or will be more inclined to limit their legislation to more conservative measures designed merely to encourage and facilitate private building and investment.

New legislation to provide some form of state assistance for low-cost housing will be proposed in New Jersey, despite rejection by the state's voters in the November election of a proposed $100,000,000 State bond issue to finance a self-liquidating housing program. Sponsors of the rejected program, which may again be sought in modified form, said its main purpose was to provide low-rate money to private builders to enable them to build homes within the price range of medium and low-income families.

Public housing is expected to be expanded in New York. Housing Commissioner Herman T. Stichman has announced plans for rehousing 350,000 low and middle-income persons in every section of New York

State in the next five years. A $735,000,000 loan fund, authorized by popular vote for subsidizing public housing, would be used to build 10,000 homes for middle-income groups, housing 40,000 persons in 1950. An equal number would be erected in each of the following four years by individuals, with down payments of less than $250 per room and carrying charges.

California's electorate will vote next November on a proposed $100,000,000 bond issue for continuation of the State's home and farm purchase program of loans to war veterans.

Wisconsin Idea

A veterans' group in Wisconsin has proposed a special session of the state legislature to repeal Wisconsin's present veterans housing law and replace it with enactment of a state bonus for World War II vets. The Wisconsin housing law provides for loans up to $2,000 to individual veterans from a State housing fund being built up from doubled State liquor taxes and expected to total $13,000,000. Also, 20 per cent of the fund is earmarked for grants to local housing authorities of 10 per cent of the cost of units they build for veterans.

In commenting recently on the expressions of dissatisfaction over operation of the Wisconsin program, Gov. Oscar A. Rennebohm said it should be given a longer trial and indicated he would make no immediate decision on requests for a special legislative session to amend or repeal the law.

Enactment of a new urban redevelopment law will be proposed in the 1950 Virginia Legislature, primarily for the purpose of attracting insurance company investment in housing property in Richmond. Legislation modeled after a Pennsylvania statute will be sought.

A bill calling for a recess study of state building laws and the drafting of a state building code has been filed for consideration by the 1950 Massachusetts Legislature.

Drafting of a modern and permissive state building code is under way in New York by a new State Building Code Commission, which was created by the 1949 state legislature in the hope of paving the way for substantial savings in housing construction costs.

In New Jersey, under the authority of past legislation, the state departments of Labor, Health, Conservation and Economic Development, and others, are working with organizations of plumbers, electricians and building inspectors in the production of a standard building code.

Rent control will be raised as an issue in a number of states this year, with the probability that State laws, will be put into effect in some instances, even if federal controls are permitted to expire.

It is expected that New York state's stand-by residential rent-control law probably will be continued into 1951. It also is indicated that state laws controlling business and commercial rents in New York City will be extended but possibly modified.

Legislation to set up State rent controls to become effective upon expiration of the Federal law is proposed in Massachusetts. A bill to be acted upon during the 1950 session would freeze rents where a landlord has secured a 15 per cent increase during the last two years. It also will provide a one-year moratorium on all rent increases except in hardship cases.

Rent decontrol will be proposed in some states. During the past year the legislatures of Nebraska and Texas voted their states out of rent control; Wisconsin's legislature substitutes state for federal controls, and Alabama acted to end ceilings next May 25. Meanwhile, Arizona and Utah were completely decontrolled.

PERSONNEL

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WANTED: YOUNG MAN

With good experience, and modest capital for stock participation, to open branch mortgage company in Southeast with backing of APPROVED MORTGAGEE operating in three states. Write Box 201, Mortgage Bankers Association of America, 111 W. Washington St., Chicago 2, Ill.